

INTERSTATE
DEPARTMENT STORES, INC.
NEW YORK, N. Y.

ANNUAL REPORT
YEAR ENDING
JANUARY 31, 1939

APRIL 10, 1939.

TO THE STOCKHOLDERS OF
INTERSTATE DEPARTMENT STORES, INC.

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1939 and for the fiscal year then ended.

On February 28, 1938 I assumed office as your President. At the beginning it was necessary for me to devote myself to a thorough study of the affairs, organization, operations and personnel of the Company. Later I was able to put into force those policies and operating methods which careful study had indicated were wise.

The consolidated net loss for the year amounted to \$49,084 compared with earnings in the preceding year of \$368,584. The loss occurred primarily in the first half of 1938. In the last six months of 1938 a consolidated net profit of \$350,296 was earned compared with a consolidated net profit of \$87,962 in the last six months of 1937.

The earning record of your Company for the year can best be seen by comparison of the quarterly earnings:

	1938	1937	Difference
1st Quarter.....	\$170,453*	\$100,725	—\$271,178
2nd Quarter.....	228,927*	179,897	— 408,824
3rd Quarter.....	96,182	129,159	— 32,977
4th Quarter.....	254,114	41,197*	+ 295,311

(* Loss)

During the past year sales were \$23,717,188, including sales in leased departments, a decrease of \$3,230,693, or 12.0% below the sales of the preceding year.

The sales record of your Company for the year can best be interpreted by comparing results of the Company by quarters with the figures for sales at the department stores of the country included in the monthly index compiled by the Division of Research and Statistics of the Board of Governors of the Federal Reserve System, showing percentage comparisons with the previous year:

	Interstate	Federal Reserve	Difference
1st Quarter	20.6%*	9.0%*	— 11.6%
2nd Quarter	20.4%*	14.0%*	— 6.4%
3rd Quarter	11.3%*	9.0%*	— 2.3%
4th Quarter	4.5%	1.0%*	+ 5.5%

(* Decline)

Sales in February and March of 1939 were ahead of those of last year.

Overhead expenses throughout the Company have been reduced. The central office has been completely reorganized. The staff has been greatly strengthened by the addition of well trained men and women, thoroughly experienced in modern retailing. This has been accomplished at the same time that the expenses of the central office have been reduced. Currently expenses in stores and the central office are running below those of a year ago.

The organization within the stores has been greatly improved. Interstate's standing has been raised among the manufacturers which supply it with merchandise.

The Consolidated Balance sheet shows the ratio of current assets to current liabilities as of January 31, 1939 to be 4.18 to 1 compared with 4.93 to 1 on January 31, 1938. Net working capital as of January 31, 1939 was \$4,308,982 compared to \$4,576,113 in the previous year. Cash of \$1,710,742 as of January 31, 1939 was in excess of all current liabilities.

Inventories including merchandise in transit were \$3,128,833, valued at the lower of cost or market, showed an increase of \$154,823 over the preceding year. Analysis of inventories showed 90.80% was one year old or less compared with 92.43% last year. Adequate reserves have been provided for merchandise over one year old on the same basis as in prior years.

Customers' accounts receivable, after reserves provided on the same basis as in the preceding year, were \$751,957 on January 31, 1939 as compared with \$734,408 on January 31, 1938.

1,720 shares of its Preferred Stock were purchased by the Company during the fiscal year at an average cost per share of \$71.17. These purchases completed the acquisition of the number of shares of its Preferred Stock which the Company, in accordance with its charter, was required to acquire for retirement during the calendar year 1938, and in addition 805 shares of the 975 shares of the Preferred Stock required to be acquired in the present calendar year.

Two years ago the lease on the store we rented in Dayton, Ohio was secured by another company, to take effect upon the expiration of our lease. This was a profitable store, but since it has been impossible to secure another location at a suitable rent we discontinued operations in Dayton, January 31, 1939.

A new, modern store, leased for fifteen years, will be opened by us about May 15, 1939 in Des Moines, Iowa. We believe Des Moines presents a profitable opportunity for us.

Progress has been and is being made. The full benefit of the improvement in personnel and method has not yet been felt and there is still much work to be done. We are convinced, however, that a sound, constructive, long range program is being followed, and when it is fully developed and the organization thoroughly trained, we are confident that Interstate will fully capitalize on the opportunities that business conditions provide.

Very truly yours,

REAGAN P. CONNALLY,
President.

DIRECTORS

ROBERT S. ADLER	ROBERT R. GUTHRIE
REAGAN P. CONNALLY	RAY C. KRAMER
CHRISTIAN E. DAHLGREN	WILL I LEVY
CHARLES E. FEDERMAN	ALBERT PARKER
PAOLINO GERLI	HAROLD J. SZOLD

BENJAMIN VOLLEN

OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	RAY C. KRAMER
<i>Vice-President</i>	BENJAMIN VOLLEN
<i>Treasurer and Secretary</i>	ALBERT PARKER
<i>Assistant Treasurer and Assistant Secretary</i>	OSCAR C. WEITZBERG
<i>Assistant Secretary</i>	FREDERICK CORD

INTERSTATE DEPARTMENT

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

	As at January 31, 1939		As at January 31, 1938
Cash on hand and in banks	\$1,710,742.11		\$1,984,382.95
Accounts Receivable—Customers:			
Charge accounts	\$ 48,619.07		\$ 58,259.84
Layaway, Will Call and C. O. D. accounts	282,677.49		290,871.29
Deferred payment accounts secured by conditional sales contracts	501,840.88		471,035.54
	833,137.44		820,166.67
Less: Reserves	81,180.68		85,758.80
	751,956.76		734,407.87
Due from insurance companies, vendors and others	74,788.37		55,808.25
Less: Reserves	3,131.67		8,468.54
	71,656.70	823,613.46	47,339.71
			781,747.58
Merchandise inventories, certified by the management as to quantities and marketable condition and as to valuation at the lower of cost or market:			
Merchandise at stores, based upon the retail method of inventory valuation	2,828,255.05		2,478,820.77
Merchandise at warehouse	73,097.24		354,002.00
Merchandise in transit	227,480.45	3,128,832.74	141,186.96
Total Current Assets	5,663,188.31		2,974,009.73
			5,740,140.26

OTHER ASSETS:

Deposits in closed banks, less reserve	3,935.55		3,935.55
Advances to employees	535.16		2,810.52
Miscellaneous other assets, including rent deposits, investments, due from landlords, etc., less reserve	59,843.06	64,313.77	61,103.88
			67,849.95

FIXED ASSETS—At Cost:

Land and buildings	1,200,000.00		1,200,000.00
Less: Reserve for depreciation	96,990.25		73,861.25
	1,103,009.75		1,126,138.75
Alterations and improvements to leased premises	577,782.94		602,823.64
Less: Reserve for depreciation	261,796.12		256,852.74
	315,986.82		345,970.90
Furniture and fixtures	1,176,669.18		1,387,198.52
Less: Reserve for depreciation	680,162.33		789,488.41
	496,506.85		597,710.11
Delivery equipment	10,860.47		10,784.85
Less: Reserve for depreciation	5,980.80		4,286.97
	4,879.67	1,920,383.09	6,497.88
			2,076,317.64

LEASEHOLDS

Less: Reserve for amortization	240,397.12		247,897.12
	115,558.12	124,839.00	111,676.10
			136,221.02

DEFERRED CHARGES:

Prepaid expenses, unexpired insurance, etc.	215,088.77		163,231.24
Supplies	55,717.74	270,806.51	63,848.31
		\$8,043,530.68	227,079.55
			\$8,247,608.42

NOTES TO ACCOUNTS

The Company is obligated to reacquire for retirement by redemption or purchase at least 3% (975 and outstanding. As at January 31, 1939, the Company held 1880 shares of Preferred Stock in the treasury, before the 31st day of December 1939, the Company is obligated to reacquire an additional 170 shares of its

The financial statements are subject to the final determination of Federal and State income and State

MENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1939

LIABILITIES

CURRENT LIABILITIES:

	As at January 31, 1939	As at January 31, 1938
Accounts payable—trade	\$ 769,569.77	\$ 586,367.35
Accounts payable for merchandise in transit....	227,480.45	141,186.96
Accrued salaries and expenses	102,956.93	135,364.76
Accrued Federal, State and other taxes	195,464.51	238,736.00
Sundry creditors and accruals	19,906.71	17,929.02
Current installments on mortgages payable and accrued interest thereon	38,827.48	38,968.81
Accrued additional compensation—payable in cash		5,473.39
Total Current Liabilities	1,354,205.85	1,164,026.29
Due to landlord—not current	33,333.34	36,666.67
First Mortgage 5% Gold Bonds, Series A, due annually to March 1, 1949	\$ 240,000.00	\$ 255,000.00
Less: Current installment included above	15,000.00	15,000.00
First Mortgage payable—payable in monthly installments to 1947	213,502.71	221,694.05
Less: Current installments included above	8,567.65	8,191.34
Second Mortgage payable—payable semi-annually to 1947	92,500.00	100,000.00
Less: Current installments included above	7,500.00	7,500.00
Total Liabilities	1,902,474.25	1,746,695.67
Accrued additional compensation payable in Common Stock		2,340.00
Reserves for replacement of fixtures and for equalization of rent	18,611.88	25,974.60
Minority interest in Subsidiary Company	5,642.87	5,947.03

CAPITAL STOCK:

Preferred Stock 7% Cumulative, par value \$100.00 per share (redeemable at \$110.00 per share, plus accrued dividends):

	Shares		Shares	
Authorized and issued	24,800	2,480,000.00	24,800	2,480,000.00
Less: Held in treasury for redemption...	1,880	188,000.00	160	16,000.00
Outstanding	22,920	2,292,000.00	24,640	2,464,000.00

Common Stock, without par value:

	Shares		Shares	
Authorized	320,000		320,000	
Issued	308,946	1,580,251.53	308,946	1,580,251.53
Less: Reacquired	7,100	35,500.00	7,568	37,840.00
Outstanding	301,846	1,544,751.53	301,378	1,542,411.53

SURPLUS:

Earned Surplus—per Statement No. 2	218,067.21		445,497.25	
Appropriated Surplus—per Statement No. 2 ..	35,500.00		37,840.00	
Capital Surplus—per Statement No. 2.....	2,026,482.94	2,280,050.15	1,976,902.34	2,460,239.59
		<u>\$8,043,530.68</u>		<u>\$8,247,608.42</u>

AS AT JANUARY 31, 1939

shares) annually, of the largest amount in par value of the Preferred Stock which shall ever have been issued of which 1075 shares were reacquired for retirement in accordance with requirements of prior years. On or Preferred Stock.

e franchise taxes.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS AS AT JANUARY 31, 1939

	January 31, 1939	January 31, 1938
EARNED SURPLUS:		
Balance, January 31, 1938 and 1937	\$ 445,497.25	\$ 368,641.31
Transfer to earned surplus of appropriated surplus applicable to Common Stock, without par value, distributed during the periods (468 shares during the year ended January 31, 1939 and 6,442 shares during the year ended January 31, 1938)	2,340.00	32,210.00
Prior years New York State Franchise Taxes—1931 to 1937....	16,780.87*	
Net profit or loss for the year ended January 31, 1939 and 1938...	49,084.17*	368,584.94
Dividends paid on Preferred Stock—four quarterly dividends	163,905.00*	173,250.00*
Dividends paid on Common Stock		150,689.00*
Balance, January 31, 1939 and 1938 per Statement No. 1	<u>\$ 218,067.21</u>	<u>\$ 445,497.25</u>
APPROPRIATED SURPLUS:		
Balance, January 31, 1938 and 1937	\$ 37,840.00	\$ 70,050.00
Transfer to earned surplus of appropriated surplus applicable to Common Stock, without par value, distributed during the periods (468 shares during the year ended January 31, 1939 and 6,442 shares during the year ended January 31, 1938)	2,340.00*	32,210.00*
Balance, January 31, 1939 and 1938 per Statement No. 1	<u>\$ 35,500.00</u>	<u>\$ 37,840.00</u>
CAPITAL SURPLUS:		
Balance, January 31, 1938 and 1937	\$1,976,902.34	\$1,160,582.45
Proceeds from the sale of 75,344 shares of Common Stock, without par value, at \$17.00 per share aggregating \$1,280,848.00 after deducting the amount of \$376,720.00, equivalent to \$5.00 per share, allocated to Common Capital Stock account and the amount of \$90,914.51 expended for fees, underwriting commissions and other expenses in connection with such sale		813,213.49
Discount on 7% Preferred Stock purchased for redemption (1,720 shares January 31, 1939, 160 shares January 31, 1938)	49,580.60	3,106.40
Balance, January 31, 1939 and 1938 per Statement No. 1	<u>\$2,026,482.94</u>	<u>\$1,976,902.34</u>

*Italics * Denote red figures.*

The Notes to Accounts are an integral part of this statement and must be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED JANUARY 31, 1939

	For the Year Ended January 31, 1939	For the Year Ended January 31, 1938
NET SALES:		
Owned Departments	\$20,367,286.16	\$23,042,943.85
Leased Departments	3,349,901.80	3,904,937.88
	\$23,717,187.96	\$26,947,881.73
COST OF GOODS SOLD, SELLING, OPERATING AND ADMINISTRATIVE EXPENSES, (including interest on mortgages of store properties, classified as rent)—exclusive of depreciation and amortization	23,595,747.94	26,377,952.56
	121,440.02	569,929.17
LESS: Depreciation on buildings, alterations and improvements, fixtures, equipment, etc.	196,448.59	198,442.88
Amortization—leaseholds	11,382.02	11,382.12
	207,830.61	209,825.00
	86,390.59*	360,104.17
OTHER INCOME:		
Interest and other non-trading income	82,658.22	103,572.87
	3,732.37*	463,677.04
Proportion of loss of a subsidiary company applicable to its minority interest	304.16	345.61
NET PROFIT OR LOSS BEFORE PROVISION FOR FED- ERAL INCOME TAXES	3,428.21*	464,022.65
PROVISION FOR FEDERAL INCOME TAXES	45,655.96	95,437.71
NET PROFIT OR LOSS—Statement No. 2	\$ 49,084.17*	\$ 368,584.94

*Italics * Denote red figures.*

The Notes to Accounts are an integral part of this statement and must be read in conjunction herewith.

S. D. LEIDESDORF & CO.
Certified Public Accountants
125 PARK AVENUE
NEW YORK, N. Y.

MARCH 31, 1939.

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.

We have made an examination of the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1939, and of the consolidated statements of surplus and profit and loss for the year ended January 31, 1939. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Our examination of the merchandise inventories included a review of the inventory procedure and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules, but did not include a verification of the quantities in the inventories except at seven representative stores, selected for test purposes, at which stores the inventories were taken under our supervision.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of surplus and profit and loss, together with the comments thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the period under review, their consolidated financial position at January 31, 1939, and the consolidated results of their operations for the year then ended.

S. D. LEIDESDORF & CO.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.